

DHH

Sector: Cloud Computing



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Organic + M&A = 1H23 EBITDA Adj. +44% y/y at €5.4mn

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 120.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration.

1H23: Top Line +38% y/y, EBITDA Adj. +44% y/y

DHH’s 1H23 interim results are healthy, consistent with our full year estimates if we consider figures gross of non-monetary non-recurring charges related to Stock Option Plan. In details:

- ◆ VoP strongly up, ca. +38.3% y/y, thanks to ~10% organic growth and to the consolidation of Connesi. Recurring revenues are 94% of total;
- ◆ Adj. EBITDA up +44.5% y/y, at ca. €5.39mn, with Adj. EBITDA Margin at 31.6% of VoP, up some 120 bps y/y;
- ◆ OpFCF b.t. at ~€3mn, negatively burdened by higher capex but positively affected by NWC evolution;
- ◆ Net Debt at ca. €5.6mn, well under control (Net Debt / actualized EBITDA Adj. at ca. 0,5x), and down from €6.3mn of 1Q23 despite some €1.3mn cash out for M&A in the semester.

Future proof market positioning (also on cloud GPU)

We expect DHH to keep complementing organic growth strategies (product innovation, marketing, ARPU upselling), and M&A driven ones (acquisition of network infrastructure-based “premium” B2B ISPs), thus further strengthening its market positioning. Proper exploitation of the AI hype thanks to the already available Cloud GPU offer might add on top.

Fine-tuning of 2023E-onward estimates

We are fine tuning our 2023E-25E estimates on the back of a bit higher D&A charges and heightened cash generation. As a result, we now expect: 1) VoP reaching ca. €45.1mn in 2025E (15.0% CAGR_{22A-25E}); 2) EBITDA and EBIT margin increasing y/y and expected respectively at 33.0% and 21.2% by 2025E; 3) Net Cash Position peaking at ca. €7.4mn by 2025E year-end, likely to be exploited for further M&A deals.

Fair value per share at €22.4 (from €22.3)

Derating of some international peers is offset by lower Italian ERP, thus leading our updated fair value per share at €22.4 (from €22.3), as simple average of: i) DCF model (€25.3); ii) Peers’ analysis (€19.5).

Fair Value (€)	22.4
Market Price (€)	15.5
Market Cap. (€mn)	75.8

KEY FINANCIALS (€mn)	2022	2023E	2024E
REVENUES	29.6	36.8	40.7
EBITDA REPORTED	7.4	10.2	12.6
EBIT REPORTED	2.8	4.9	7.3
NET PROFIT REPORTED	0.7	2.3	4.3
EQUITY	24.1	25.9	30.4
NET FIN. POS.	-6.0	-3.9	1.0
ADJ. EPS (€)	0.53	0.69	0.88
DPS (€)	0.0	0.0	0.0

Source: DHH Group (2022), Value Track (2023E-24E)

RATIOS & MULTIPLES	2022	2023E	2024E
Adj. EBITDA MARGIN (%)	30.4	30.6	31.0
Adj. EBIT MARGIN (%)	16.3	16.2	17.9
NET DEBT / EBITDA (x)	0.8	0.4	nm
NET DEBT / EQUITY (x)	0.2	0.1	nm
EV/SALES (x)	2.8	2.2	1.8
EV/EBITDA (x) (**)	11.1	7.1	5.9
EV/EBIT (x) (**)	29.8	13.5	10.3

Source: DHH Group (2022), Value Track (2023E-24E)

(*) EV adjusted for peripherals and treasury shares

(**) 2023E EBITDA and EBIT adjusted for stock option charges

STOCK DATA	
FAIR VALUE (€)	22.4
MARKET PRICE (€)	15.5
SHS. OUT. (m)	4.9
MARKET CAP. (€m)	75.8
FREE FLOAT (%)	23.7
AVG. -20D VOL. (#)	950
RIC / BBG	DHH.MI / DHH.IM
52 WK RANGE	14.00-17.30

Source: Stock Market Data



Business Description

DHH is a tech group that provides cloud computing solutions in IaaS, PaaS and SaaS mode to 100.000+ clients across southeast Europe (the so-called “Adriatic Sea area”), where expected growth is higher thanks to current lower digital penetration. Nowadays, there are eight autonomous and independent business units under management across seven countries (Bosnia-Herzegovina, Bulgaria, Croatia, Italy, Serbia, Slovenia, and Switzerland).

DHH aims to consolidate leadership position in such countries thus benefitting from the natural growth trend already in place.

Key Financials

€ mn	2022	2023E	2024E	2025E
Total Revenues	29.6	36.8	40.7	45.1
Chg. % YoY	49.6%	24.4%	10.4%	10.8%
EBITDA Reported	7.4	10.2	12.6	14.9
EBITDA Margin (%)	24.9%	27.6%	31.0%	33.0%
EBIT Reported	2.8	4.9	7.3	9.5
EBIT Margin (%)	9.3%	13.2%	17.9%	21.2%
Net Profit Reported	0.7	2.3	4.3	5.8
Chg. % YoY	-76.7%	nm	87.1%	35.4%
Adjusted Net Profit	2.6	3.4	4.3	5.8
Chg. % YoY	-1.4%	30.4%	26.4%	35.4%
Net Fin. Position	-6.0	-3.9	1.0	7.4
Net Fin. Pos. / EBITDA (x)	0.8	0.4	nm	nm
Capex	-2.5	-5.4	-4.6	-4.8
OpFCF b.t.	6.9	5.9	7.8	9.9
OpFCF b.t. as % of EBITDA	92.8%	57.7%	61.4%	66.5%

Source: DHH Group (historical figures), Value Track (estimates)

Investment case

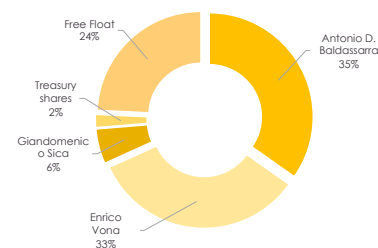
Strengths / Opportunities

- ◆ Excellent geographic footprint, market leader in Croatia and Slovenia
- ◆ Ever increasing reference market, expected to grow at double-digit rate
- ◆ Outstanding track record in digital business and M&A activities
- ◆ High profitability ratios, sound Free Cash Flow generation deriving from subscription-based recurring revenues business model

Weaknesses / Risks

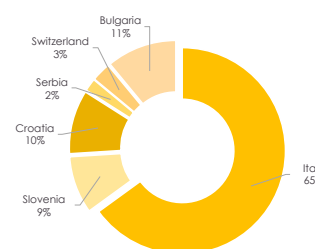
- ◆ Much lower size if compared to US tech giants
- ◆ Highly competitive market with several players

Shareholders Structure



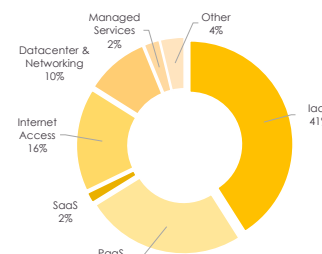
Source: DHH Group

Sales b.down by country (2022)



Source: DHH Group

Sales b.down by segment (2022)



Source: DHH Group

Stock multiples @ €22.4 Fair Value

	2023E	2024E
EV / SALES (x)	3.0	2.6
EV / ADJ. EBITDA (x)	10.0	8.5
EV / ADJ. EBIT (x)	18.8	14.7
EV / Cap. Empl. (x)	3.8	3.7
OpFCF Yield (%)	7.4	8.1
P / E Adj. (x)	32.2	25.6
P / BV (x)	4.5	3.8
Cash Div. Yield. (%)	0.0	0.0

Source: Value Track

1H23: Top Line +38% y/y, EBITDA Adj. +44% y/y

DHH's 1H23 interim results are healthy, in line with our full year estimates if we take into account figures gross of non-monetary non-recurring charges related to Stock Option Plan.

Key messages we get from results are the following:

- ◆ **Value of Production strongly up, ca. +38.3% y/y**, thanks to ~10% organic growth and to the consolidation of Connesi (acquired post-1H22). **Recurring revenues** are **94%** of total;
- ◆ **Adjusted EBITDA up +44.5% y/y, at ca. €5.39mn**, with Adjusted EBITDA Margin at 31.6% of VoP, up some 120 bps y/y;
- ◆ **Adjusted EBIT up +39.8% y/y**, with higher D&A charges y/y mainly related to IFRS16 accounting of IRUs;
- ◆ **OpFCF b.t. at ca. €3mn**, i.e. ca 54% of Adjusted EBITDA, negatively burdened by higher capex but positively affected by working capital management;
- ◆ **Net Debt at ca. €5.6mn**, well under control (Net Debt / actualized EBITDA Adj. at ca. 0.5x), and down from €6.3mn of end of March 2023.

DHH Group: Key Financial Items 1H21 – 1H22 – 1H23

(€mn)	1H21	1H22	1H23	y/y (%)
Value of Production	9.6	12.1	17.1	+38%
EBITDA Adjusted (*)	3.5	3.7	5.4	+44%
EBIT Adjusted (*)	1.9	1.8	2.6	+40%
Net Profit Adjusted (*)	2.1	1.2	1.4	+16%
EBITDA Reported	3.5	3.7	4.3	n.m.
EBIT Reported	1.9	1.8	1.5	n.m.
Net Profit Reported	2.1	1.2	0.3	n.m.
OpFCF before taxes	1.7	2.8	3.0	
Net Fin. Position [Net debt (-) / Cash (+)]	2.5	0.9	-5.6	

Source: DHH, Value Track analysis, (*) Gross of Stock Option Plan charges

Top Line growing ca. 38% y/y

Revenues from Sales came in at €16.5mn in 1H23, growing +37% y/y (~+10% on a l-f-l basis), while Value of Production grew ca. +38% y/y, supported by both steady organic business expansion across different business units and the positive impact coming from Connesi, started being consolidated as of July 2022.

In terms of Top Line breakdown by segment, we note a switch from Datacentre & Networking (down by -28.7% y/y) towards SaaS, Managed Services and IaaS (up +42.1%, +36.6% and +19.2%, respectively).

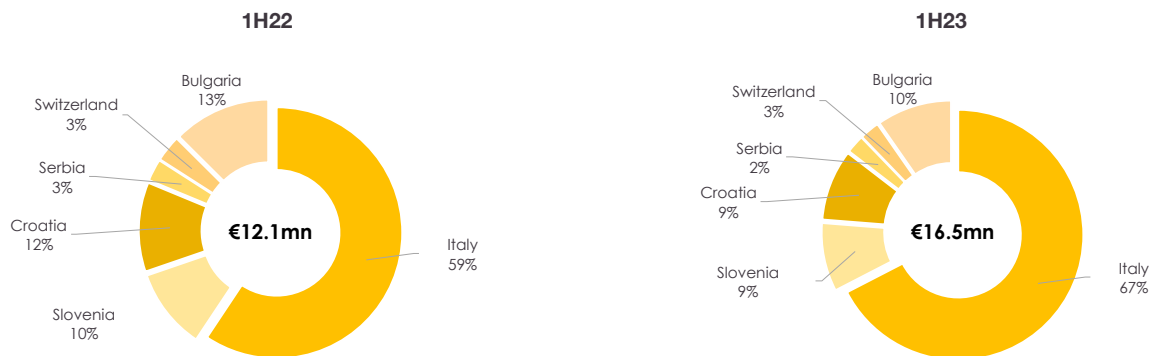
Looking at the various geographies, Balkans were the best performing ones in terms of organic growth rates while Switzerland was the laggard, with a low single digit growth rate. Bulgaria (Evolink) was up at mid-single digit rate but net of intragroup items was flat y/y. Italian business was up +55.6% y/y with a big boost from Connesi consolidation.

Overall foreign countries accounted for ca. 41% of total.

DHH Group: Net Sales by segment 1H22 – 1H23

(€mn)	1H22	1H23	y/y (%)
IaaS	5.2	6.2	19.2%
PaaS	4.0	4.0	-1.6%
SaaS	0.2	0.3	42.1%
Internet Access	-	3.6	nm
Datacenter & Networking	2.2	1.6	-28.7%
Managed Services	0.3	0.5	36.6%
Other	0.1	0.5	nm
Total Revenues from Sales	12.1	16.5	37.0%

Source: Company figures, Value Track Analysis

DHH Group: 1H22 – 1H23 Net Sales by geography (%)


Source: DHH, Value Track Analysis

EBITDA Adj. Margin up by ca. 100bps at ~32%

Thanks to the double-digit top-line growth, EBITDA Adj. was up +44.5% y/y at €5.4m and Adj. EBITDA Margin was up as well +98bps to 31.6% after Total Opex at €11.7mn (+35.6% y/y).

On a like-for-like basis, net of the €940k positive impact of newly consolidated Connesi, EBITDA Adj. experienced an organic growth of ca. 20%, surpassing the proportional increase in organic revenue, i.e., ~+10%.

Below EBITDA Adj., despite ca. €1mn higher D&A charges, EBIT Adj. stands up +39.8% y/y at €2.6mn and Net Profit Adj. at €1.4mn (vs. €1.2mn in 1H22).

DHH Group: Income Statement 1H21 – 1H22 – 1H23

(€ mn)	1H21	1H22	1H23	y/y (%)
Revenues from Sales	9.6	12.1	16.5	36.5%
Other Revenues	0.0	0.3	0.6	85.6%
Value of Production	9.6	12.4	17.1	37.7%
COGS	-4.0	-6.0	-9.1	50.9%
Gross Profit	5.3	6.3	8.0	27.3%
Gross Margin (%)	54.8%	51.2%	47.0%	-8.3%
Labour costs	-1.5	-2.4	-3.3	37.7%
Other Opex	-0.3	-0.2	-0.4	115.6%
EBITDA	3.5	3.7	4.3	15.8%
EBITDA Margin (%)	36.2%	30.2%	25.1%	-16.9%
D&A	-1.6	-1.9	-2.8	47.7%
EBIT	1.9	1.8	1.5	-17.9%
EBIT Margin (%)	19.5%	15.0%	8.7%	-42.3%
Net Financial Charges	-0.1	-0.1	-0.4	255.5%
Taxes	0.3	-0.6	-0.8	34.7%
Minorities	0.0	0.0	0.0	<i>nm</i>
Net Profit	2.1	1.2	0.3	-75.2%
EBITDA Adjusted	3.5	3.7	5.4	44.5%
EBIT Adjusted	1.9	1.8	2.6	39.8%
Net Profit Adjusted	2.1	1.2	1.4	15.7%

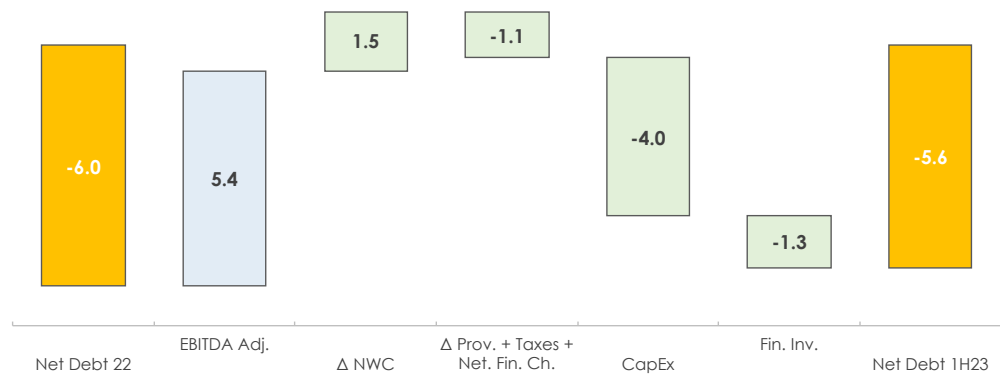
Source: Company figures, Value Track Analysis

Operating Cash Flow remains strong, i.e. OpFCF b.t. on EBITDA Adj. at 54% (higher than 80% if we deduct one off capex on RoU)

As for the Balance Sheet / Cash Flow Statement, we note:

- ◆ Tangible and intangible investments (included RoU) at €4.0mn in 1H23 vs. €0.7mn in 1H22 (as 23.2% and 5.6% of Sales, respectively), up y/y mainly due to Seeweb and partly Connesi needs, somewhat one-off;
- ◆ Working Capital at €-4.1mn (-12.0% of Sales), positively benefitting from a decrease in trade receivables (from €5.1mn in FY22 to €4.2mn in 1H23), out of which some €600k due to Connesi;
- ◆ OpFCF before taxes (defined as EBITDA Adj.- Tangible and Intangible Capex ± ΔNWC ± Δ Provisions) at 54.2% of the EBITDA Adj., still highlighting the strong cash generation capabilities of the DHH business model granted by recurring revenues despite ca. €4.0mn Capex. We calculate that net of some €1.5mn one off RoU investments the OpFCF conversion would have been higher than 80%;
- ◆ Net Debt Position at €5.6mn (almost entirely related to IFRS 16 leasing payables accounting, worth some €5.0mn) vs €6.3mn and €6.0mn recorded in 1Q23 and FY22, respectively, despite the cash out for Misterdomain M&A deal (€700k) and for Connesi shares buyback (€600k);
- ◆ Cash available at €10.6mn, to be likely devoted to further future M&A deals.

DHH Group: Bridge Cash Flow 1H23



Source: Company figures, Value Track Analysis

DHH Group: Balance Sheet FY21 – 1H22 – FY22 – 1H23

(€ mn)	FY21	1H22	FY22	1H23
ToT Current assets	3.9	5.5	7.4	6.7
ToT Current liabilities	5.4	6.7	10.1	10.8
Net Working Capital	-1.5	-1.2	-2.6	-4.1
Goodwill	9.7	9.6	10.5	11.1
Tangibles & Intangibles (ex Goodwill)	12.0	10.8	21.3	22.4
Financial assets	0.8	0.8	2.0	2.0
Other net assets	1.5	1.5	1.5	1.5
Net Fixed Assets	23.9	22.7	35.2	37.0
Provisions	1.5	1.5	2.4	2.4
Total Capital Employed	20.9	20.0	30.2	30.5
Group Net Equity	20.0	20.9	24.1	24.9
Net Fin. Position [Net debt (-) / Cash (+)]	-0.9	0.9	-6.0	-5.6

Source: Company figures, Value Track Analysis

Recap of 2023E-24E growth strategy

In 2H23E-24E we expect DHH to capitalize on the initiatives put in place in the latest couple of years (upselling, entrance into B2B ISP market, acquisition of network infrastructure-based companies, and so on) and to keep growing by complementing organic growth strategies and M&A driven ones.

Organic growth strategies

Near term: ARPU, Product portfolio, go to market

We expect DHH to keep working on product innovation and marketing:

- ◆ Launching proprietary solutions to stay ahead any technological trend, with the aim of introducing innovative services and meet customers' needs. This approach should remain substantially unchanged, with all businesses (and brands) within the consolidation perimeter willing to introduce innovative services;
- ◆ Increasing ARPU, through the shift towards premium products - Group strategy is aimed at expanding its value proposition, trying to provide customers with high quality products (value-added products lying a on higher price range) and granting them a satisfying experience level;
- ◆ Improving go to market strategy through the establishment of value partnerships with web agencies and specialized partners, system integrators or software houses that may accelerate the growth path and market penetration, thus allowing the enhancement of customer base, and the improvement of retention rates.

Medium-term: Cloud GPU service provisioning

The advent of generative AI stands as a pivotal force in contemporary technological advancement. Within this landscape, cards manufacturers, (e.g. NVIDIA), and Cloud GPU providers, emerge as primary beneficiaries and are necessary technological enablers for the data computational needs of AI, deep learning, big data, computer vision.

We note that in the Cloud GPU provisioning field, Seeweb is one of the best positioned Italian players. Indeed, it launched a flexible and ready to use Cloud Server GPU offer already back in mid-June 2021, and can now provide its service not only to Italian clients but also to international ones at a ca. 50% price discount vs. AWS, Azure and more.

Revenues from this service are still pretty small (€0.5mn in 1H23), but the generalized hype bodes definitively well for a significant take up.

M&A driven growth strategies

M&A has always been a cornerstone of DHH growth strategy. Indeed, more than fifteen acquisitions were finalized both before and after the IPO.

So far, DHH M&A strategy has led to positive returns, thanks to a careful approach based on:

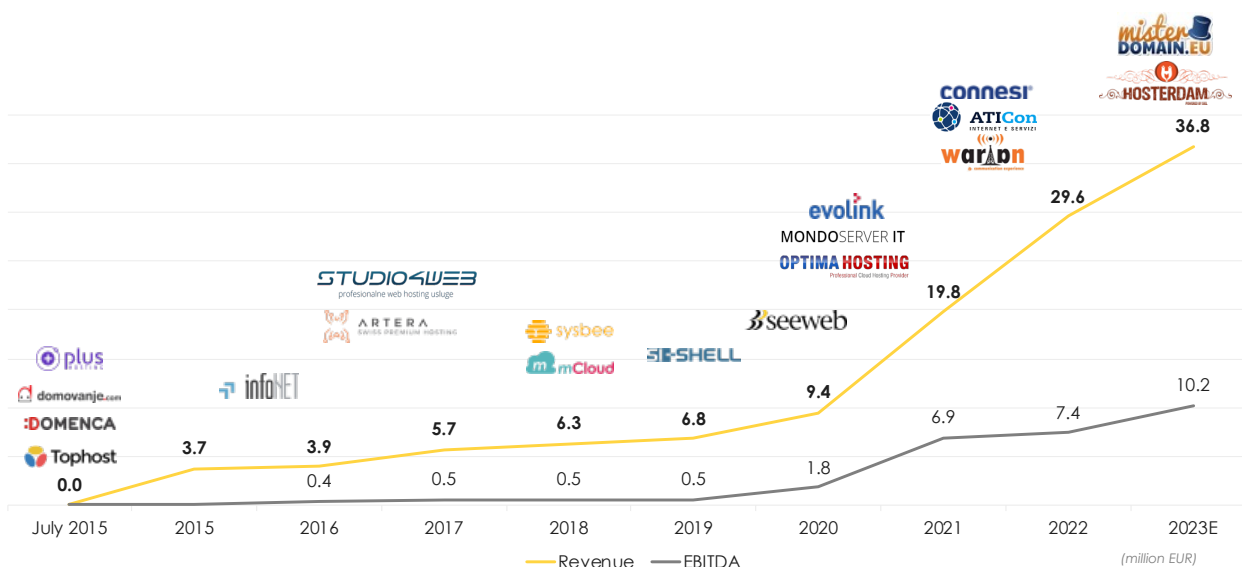
- ◆ Proposing a fair valuation for the acquisition, not over-paying the target companies;
- ◆ Structuring a deal where the entrepreneurs have strong incentives to stay in the company after the acquisition with the goal of growing the main business KPIs: Revenue, EBITDA, Net Profit, FCF;
- ◆ Cleaning-up the companies from the costs not connected to the core business, which are a constant in the world of SMEs;
- ◆ Implementing a tight and effective control management system in acquired companies, so to improve the budgeting and planning process.

Focus on B2B ISPs

DHH currently boasts some €10.6mn cash pile that we expect to be utilized to continue growing by acquisition, with the focus of M&A scouting remaining on B2B infrastructure-based premium ISPs.

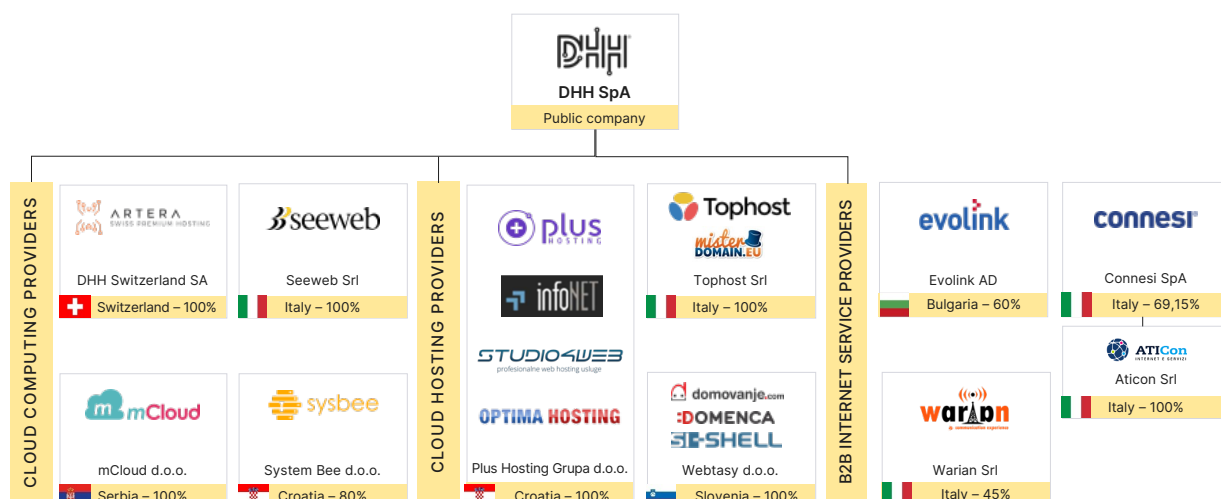
Indeed, starting as of 2020, DHH has ventured into the business arena of B2B Internet connectivity services. This initiative aims to capitalize on the network infrastructure assets held by the group and generate upselling revenue synergies.

DHH: Buy & build M&A strategy



Source: DHH. Please note that: 1) the results of Connesi are fully consolidated in DHH's financial statements starting from 1st July 2022 and there will be the full effect in 2023; 2) the results of Misterdomain are fully consolidated in DHH's financial statements starting from the acquisition date and there will be the full effect in 2023; 3) Warian is not consolidated

DHH: Current group structure



- MINORITY STAKES:
- Materialuce Srl - 4,54%
 - Sync Srl - 3,21%
 - Icona Technology SpA - 4,35%

Source: DHH

Fine-tuning of 2023E-onward estimates

First-half results are coherent with our FY23E projections, as far as Top Line, Adjusted EBITDA-EBIT and Net Financial Position are concerned, while a bit short on the Reported EBITDA, EBIT, Net Profit, due to the impact of stock option plan charges. We note that such stock option charges will not repeat in 2H23.

That said, we're fine tuning our estimates as follows:

- ◆ Unchanged 2023E-25E Top Line and Adjusted EBITDA forecasts;
- ◆ Slight downward fine tuning of Adj. EBIT and Adj. Net Profit as a result of higher D&A charges;
- ◆ Unchanged Net Financial Position forecasts thanks to heightened cash generation. Indeed, we deem that the part of the projected capex for FY23E represents a one-off occurrence.

As a result, our new 2023E-25E forecasts can be summarized as follows:

- ◆ Total revenues, expected to move from €36.9mn ad of 2023E to ca. €45.1mn at the end of the forecasted period (15.0% CAGR_{22A-25E});
- ◆ Operating profitability increasing over the next three years with EBITDA and EBIT margin expected respectively at 33.0% and 21.2% by 2025E;
- ◆ Favourable Working Capital dynamics, implying a sound operating cash conversion with OpFCF / EBITDA ratio on average at ~62% over the next three years;
- ◆ Net Cash Position, to peak at ca. €7.4mn by 2025E year-end, likely to be exploited for further M&A deals.

DHH Group: New vs. Old estimates

(€ mn)	2023E			2024E			2025E		
	Old	New	Change	Old	New	Change	Old	New	Change
Value of Production	36.8	36.8	0.0%	40.7	40.7	0.0%	45.1	45.1	0.0%
EBITDA Adjusted	11.3	11.3	0.0%	12.6	12.6	0.0%	15.3	14.9	-2.8%
Adj. EBITDA Margin	30.6%	30.6%	0.0%	31.0%	31.0%	0.0%	33.9%	33.0%	-2.8%
EBITDA	10.2	10.2	-0.5%	12.6	12.6	0.0%	15.3	14.9	-2.8%
EBITDA Margin	27.8%	27.6%	-0.5%	31.0%	31.0%	0.0%	33.9%	33.0%	-2.8%
D&A	5.1	5.3	3.6%	5.2	5.3	3.2%	5.3	5.3	0.8%
EBIT Adj.	6.2	6.0	-3.1%	7.5	7.3	-2.2%	10.0	9.5	-4.7%
Adj. EBIT Margin	16.7%	16.2%	-3.1%	18.3%	17.9%	-2.2%	22.2%	21.2%	-4.7%
EBIT	5.1	4.9	-4.6%	7.5	7.3	-2.2%	10.0	9.5	-4.7%
EBIT margin	13.9%	13.2%	-4.6%	18.3%	17.9%	-2.2%	22.2%	21.2%	-4.7%
Pre-tax profit	4.5	4.2	-6.4%	6.9	6.6	-3.1%	9.5	8.9	-5.5%
Net Profit Adjusted	3.5	3.4	-2.0%	4.4	4.3	-2.4%	6.1	5.8	-5.3%
Net profit	2.4	2.3	-4.7%	4.4	4.3	-2.4%	6.1	5.8	-5.3%
Net Fin. Position [Net debt (-)]	-3.8	-3.9	-0.1	1.0	1.0	0.0	6.1	7.4	1.3
OpFCF a.t.	3.6	4.1	14.2%	5.3	5.6	4.3%	5.7	6.9	21.1%

Source: Value Track Analysis

DHH Group: 2022A – 2025E P&L

(€mn)	2022A	2023E	2024E	2025E
Value of Production	29.6	36.8	40.7	45.1
COGS	-16.0	-19.2	-20.4	-22.3
Labour costs	-5.6	-6.7	-6.7	-6.9
Other costs	-0.6	-0.8	-0.9	-1.0
EBITDA	7.4	10.2	12.6	14.9
<i>EBITDA Margin (%)</i>	<i>24.9%</i>	<i>27.6%</i>	<i>31.0%</i>	<i>33.0%</i>
Depreciation & Amortization	-4.6	-5.3	-5.3	-5.3
EBIT	2.8	4.9	7.3	9.5
<i>EBIT Margin (%)</i>	<i>9.3%</i>	<i>13.2%</i>	<i>17.9%</i>	<i>21.2%</i>
Net Fin. Charges	-0.4	-0.7	-0.7	-0.6
Non-Operating Items	0.0	0.0	0.0	0.0
Pre-tax Profit	2.3	4.2	6.6	8.9
Tax	-1.5	-1.7	-2.2	-3.0
Reported Net Profit	0.7	2.3	4.3	5.8
EBITDA Adjusted	9.0	11.3	12.6	14.9
EBIT Adjusted	4.8	6.0	7.3	9.5
Adj. Net Profit	2.6	3.4	4.3	5.8

Source: DHH, Value Track Analysis

DHH Group: 2022A – 2025E Balance Sheet

(€mn)	2022A	2023E	2024E	2025E
Net Fixed Assets	35.1	35.9	35.2	34.7
Net Working Capital	-2.6	-3.7	-3.4	-3.2
Severance Pay and Other Funds	2.4	2.4	2.4	2.5
Total Capital Employed	30.2	29.8	29.4	29.0
Group Net Equity	24.1	25.9	30.4	36.4
Net Fin. Position [Net debt (-)]	-6.0	-3.9	1.0	7.4

Source: DHH, Value Track Analysis

DHH Group: 2022A – 2025E Cash Flow Statement

(€mn)	2022A	2023E	2024E	2025E
EBITDA	7.4	10.2	12.6	14.9
Operating WC requirements	1.1	1.1	-0.3	-0.2
Capex (inc. RoU)	-2.5	-5.4	-4.6	-4.8
Change in provisions	0.9	0.0	0.0	0.0
OpFCF b.t.	6.9	5.9	7.8	9.9
Cash Taxes	-1.5	-1.7	-2.2	-3.0
OpFCF a.t.	5.4	4.1	5.6	6.9
Financial Investments	-10.1	-1.3	0.0	0.0
Net Financial charges	-0.4	-0.7	-0.7	-0.6
Dividends paid	0.0	0.0	0.0	0.0
Change in Net Fin. Position	-5.1	2.2	4.9	6.3

Source: DHH, Value Track Analysis

Investment case & Valuation update

We update our **fair value per share at €22.4** (from €22.3), as simple average of: i) DCF model (€25.3); ii) Peers' analysis (€19.5). While DCF value has increased compared to our previous note due to the decrease of Italian Stock Market ERP (Source: *Damodaranonline*), on the contrary Peers based value has decreased a bit due to stock market multiples derating. At fair value DHH would trade at 10.0x, 18.8x, 32.3x EV/Adj. EBITDA, EV/Adj. EBIT and Adj. P/E 2023E respectively.

Peers' analysis

Based on 2023E-24E financial projections, and taking into consideration the median EV/EBITDA and EV/EBIT of peers, i.e., a cluster of companies operating in the cloud & internet access space meanwhile exposed to local or international capital markets, we calculate that at current market price DHH is trading at discount vs. peers, i.e. 7.1x-13.3x-22.3x EV/Adj. EBITDA, EV/Adj. EBIT and Adj. P/E 2023E, respectively.

We view DHH discount vs. peers as possibly reducing in the future due to:

- ◆ Strong revenue visibility – Subscription business model featured by ~94% recurring revenues;
- ◆ Best-in-class profitability – EBITDA Adj. margin over 30%;
- ◆ Sound EBITDA cash conversion, benefitting from being paid spot and then delivering its solutions in a subsequent stage;
- ◆ M&A value-creation capabilities, generating an average total ROI close to 200%.

Assuming DHH to trade in line with peers would lead to €19.5 fair equity valuation p/s (down from €20.4 due to stock market multiples derating).

DHH: Peers' stock trading multiples

Company (*)	EV / EBITDA (x)		EV / EBIT (x)		P/E (x)	
	2023E	2024E	2023E	2024E	2023E	2024E
Growens	12.4	10.0	nm	nm	nm	nm
WIIT	12.8	10.7	27.2	19.7	24.6	19.6
Unidata	7.8	6.5	11.0	9.2	13.0	9.7
Intred	8.7	7.1	17.3	13.5	22.0	17.3
Peer's Italian - Average	10.4	8.6	18.5	14.1	19.8	15.5
Beeks Financial Cloud	6.3	4.9	15.6	12.5	22.9	18.3
IONOS	8.5	7.3	12.5	10.5	17.4	15.1
Gigas Hosting	7.5	6.6	nm	nm	nm	nm
OVH	7.3	6.4	nm	nm	nm	nm
Go Daddy	12.9	11.0	27.0	19.4	29.9	21.5
Gamma Communications PLC	8.8	7.8	11.2	10.1	19.0	16.6
Peer's International - Average	8.6	7.3	16.6	13.1	22.3	17.9
Total Average Peers	9.3	7.8	17.4	13.6	21.3	16.9
Total Median Peers	8.6	7.2	15.6	12.5	22.0	17.3
DHH @ market price	7.1	5.9	13.5	10.3	22.3	17.7
<i>DHH discount vs Average</i>	-23.0%	-24.3%	-23.1%	-24.3%	5.2%	4.8%
<i>DHH discount vs Median</i>	-16.6%	-17.6%	-14.1%	-18.1%	1.8%	2.4%

Source: Market Consensus, Value Track Analysis, (*) Note that Reevo, included in the prior research conducted in May, was delisted on August 8, 2023.

Discounted Cash Flow Model

We also update our DCF Model, which incorporates medium and long-term growth potential.

Our model is based on a “target” capital structure with, Net Debt at 30% of the Capital Invested.

Thus, using an expanded CAPM approach, we get an overall 9.5% WACC. The detailed calculation is based on the following assumptions:

- ◆ 2.0% Risk-free rate, 1.1x unlevered beta (weighted average of internet and system & application sectors), 6.45% Italian ERP (previously at 8.08%) and additional 1.5% small-cap market risk premium;
- ◆ Explicit financial statements projections from 2024E up to 2031E and Terminal Value at 2031E, obtained applying a 2% Perpetuity Growth Rate (PGR).

The result of the DCF model is €25.3 fair value per share (up from €24.1).

DHH: DCF model

€mn	
PV of future cash flows 2024E-2031E	45.5
PV of Terminal value	78.1
Fair Enterprise value	123.6
Implied EV/ Adj.EBITDA 23E (x)	10.9x
Net Fin. Position 2023E	-3.9
Minorities (net of related debt)	0.0
Peripheral assets	1.5
Fair Equity value	121.2
Shs. (mn) – net of Treasury shares	4.8
Fair Equity value per share (€)	25.3

Source: Value Track Analysis

DHH: Fair Equity Value per share - Sensitivity Analysis to WACC and PGR

		Perpetuity Growth Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
WACC	8.5%	28.0	28.7	29.5	30.4	31.3
	9.0%	26.0	26.6	27.3	28.0	28.8
	9.5%	24.2	24.8	25.3	25.9	26.6
	10.0%	22.7	23.1	23.6	24.2	24.7
	10.5%	21.3	21.7	22.1	22.6	23.1

Source: Value Track Analysis

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